



January 1986

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Recommended Citation

James Chapman, *California Uniform Trade Secrets Act: A Comparative Analysis of the Act and the Common Law*, 2 SANTA CLARA HIGH TECH. L.J. 389 (1986).

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CALIFORNIA UNIFORM TRADE SECRETS ACT: A COMPARATIVE ANALYSIS OF THE ACT AND THE COMMON LAW

James Chapman

I. INTRODUCTION

With the advance of American society into the computer age, trade secret protection of commercially valuable information has become increasingly important. As a result of the speed of technological advancement, modern processes and technologies become obsolete much more quickly, thereby contributing to the increase in industrial spying, theft and misappropriation of trade secrets.¹ Due to the high cost of research and development, and the intensity of competition, knowledge has become a critical asset.²

Trade secret law has become the primary means of protecting computer technology, especially software.³ Patent and copyright law are alternative options for protecting technology; however, most companies choose trade secret protection. For instance, while an estimated one million programs are developed annually, only 1205 programs were registered with the Copyright Office between 1964 and 1976, with IBM and Burroughs accounting for over seventy-five percent of this number. During the four year period be-

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1. Hofer, *Business Warfare Over Trade Secrets*, 9 LITIGATION 8 (1983).

2. *Id.* In industries such as those that manufacture compatible computers, companies constantly modify designs to remain compatible with the leader. This market pressure, for example, enticed officials of Mitsubishi and Hitachi to risk industrial espionage. Because IBM was producing a new computer operating system, both companies had to modify the design of their products to maintain compatibility. Normally such modifications would require six months to a year to complete. Rather than fall behind, Hitachi and Mitsubishi attempted to steal the information.

Such competitive pressures, which force the largest industrial concerns to commit illegal acts, have even more impact on smaller companies that do not have the resources to engage in the extensive research and development done by their larger competitors. *Id.* at 8.

3. Note, *Trade Secret Protection of Computer Software*, 5 COMPUTER L.J. 77, 84 (1984); see also Bender, *Trade Secret Protection of Software*, 38 GEO. WASH. L. REV. 909 (1970).

tween 1976 to 1980 only 2000 programs were registered.⁴

Thus far, patent law has been unable to adapt to the technological advances of the last two decades and has been inadequate in protecting computer software. First, most software is not patentable.⁵ Second, the registration process can take more than two years,⁶ while the life expectancy of most programs is often shorter. Third, obtaining a patent can be an expensive process.⁷

Although copyright law may provide greater protection for computer programs and manuals than patent law, it too has drawbacks. First, copyright law requires that the work be original.⁸ This requirement is, however, considered fairly easy to meet. Originality has been considered to mean only that the work owes its origin to the author and is not a copy of another's work.⁹ Second, copyright protection extends to the expression of the idea and not to the idea itself.¹⁰ This distinction causes confusion when the idea and the expression are inseparable.¹¹ In such situations only exact

4. ROSE, PROTECTING TRADE SECRETS, 352-81 (1981).

5. REMER, LEGAL CARE FOR YOUR SOFTWARE, 8, 126-27 (1982). *See also* 35 U.S.C. §§ 102-03 (1984).

These sections require that the invention be novel (different from previously known programs) and nonobvious to an ordinary skilled programmer (it cannot be just a logical extension in the art of programming). The nature of software will most often cause it to fail these requirements.

6. REMER, *supra* note 5, at 8. Computer programs are generally quite complex and, consequently, patent applications become quite complex and involve many hours of a patent examiner's time.

7. *Id.* *See also* 35 U.S.C. § 41 (1984). To maximize protection and minimize frustration a patent lawyer is required to handle the paper work and define the scope of the product. The cost of drafting the application and necessary documents can be as much as \$2,000 or more and the application fee is \$300. Further, once the patent is granted, renewal fees are required every three and one half, seven and one half and eleven and one half years. These renewal fees can total \$2,400 for maintaining a patent its full 17 year life.

8. 17 U.S.C. § 102 (1976) provides in part that "copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced or otherwise communicated, either directly or with the aid of a machine or device." (emphasis added). *See also infra* note 9 and accompanying text.

9. *Puddu v. Buonamici Statuary Inc.*, 450 F.2d 401, 402 (2d Cir. 1971). The court held that originality sufficient for copyright protection exists if the author has introduced any element of novelty as contrasted with material known to him.

10. *Sid & Marty Kroft Television Productions, Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1163 (9th Cir. 1977). This principle serves to limit the extent of copyright protection. It attempts to reconcile two competing social interests: rewarding an individual's creativity and effort while at the same time permitting the public to enjoy the benefits of using the same subject matter. *Id.* at 1163.

11. *Id.* "The real task in a copyright infringement action, then, is to determine whether there has been copying of the expression of an idea rather than just the idea itself The difficulty comes in attempting to distill the unprotected idea from the protected expression." *Id.*

copying can be prohibited.¹²

The deficiencies of patent and copyright protection of high-technology and the need for clear and comprehensive trade secret protection led to the adoption of the California Uniform Trade Secrets Act (hereafter referred to as the "California Act").¹³ This comment will analyze the effect of the California Act upon common law trade secret protection that existed in California at the time of its enactment. First, the foundation of common law trade secret protection in California, together with its deficiencies will be set forth. Second, the California Act's attempt to solve these problems will be discussed. Finally, the California Act's effect on trade secret litigation is examined.

II. THE FOUNDATION OF TRADE SECRET PROTECTION IN CALIFORNIA AND THE DEFICIENCIES OF THE COMMON LAW

A. *The Common Law Definition of Trade Secret*

The Restatement of Torts defines a trade secret as "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."¹⁴ Although the definition is broad it is limited in three ways. First, a trade secret is a process or device for continuous use in the operation of a business.¹⁵ Second, only information not generally known in the particular trade or business can be protected,¹⁶ and third, the owner must exercise reasonable diligence to prevent the disclosure of trade secret information.¹⁷ Under common law, liability rests upon a breach of the duty of good faith and fair dealing, which generally consists of either a breach of contract, abuse of confidence, or impropriety in the method of ascertaining the secret.¹⁸

With the increase in complexity and diversity of technology the weaknesses in the common law have become apparent. Trade

12. *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 742 (9th Cir. 1971), "[w]hen the 'idea' and its 'expression' are thus inseparable, copying the 'expression' will not be barred, since protecting the 'expression' in such circumstances would confer a monopoly of the 'idea' upon the copyright owner"

13. CAL. CIV. CODE § 3426.1 *et seq.* (West Supp. 1986).

14. RESTATEMENT OF TORTS § 757 comment b (1939).

15. *Id.*

16. *Id.*

17. *Id.*

18. *See generally* RESTATEMENT OF TORTS § 757 comments f through j (1939).

secrets have been described as extraordinarily difficult to define.¹⁹ Over the years, courts have declared chemical formulas,²⁰ industrial processes,²¹ pricing information²² and customer lists²³ to be trade secrets. Business ideas,²⁴ layouts²⁵ and "know how"²⁶ have not been afforded such protection. Consequently, it is often difficult to determine what is protected by trade secret law. The line dividing pricing information from business "know how," for example, is far from clear. Therefore, to insure protection, companies attempt to protect everything that could possibly be a trade secret.²⁷ Normally, a list of company secrets is given to an employee with a non-disclosure agreement. The employee is forbidden to disclose any information on the list, although much of it may not constitute trade secret information, or a confidential relationship may not exist between the employer and employee.²⁸ This arrangement is not helpful to the employer since the parties to a contract cannot agree to give certain information trade secret status, when in fact it is not within the common law definition.²⁹

19. See, e.g., *Greenberg v. Croydon Plastics Co.*, 378 F. Supp. 806 (E.D. Pa. 1974). (In defining a trade secret, the court stated "[c]omment b to section 757 of the Restatement of Torts is the most lucid attempt to date to define the elusive beast.") *Id.* at 812.

20. See *Platinum Prod. Corp. v. Berthold*, 280 N.Y. 752, 211 N.E. 520 (1939) (a secret chemical formula was a protectable trade secret). For an exhaustive list of cases concerning items that do or do not constitute trade secrets, see MILGRIM, *TRADE SECRETS* §§ 2.09(1)-(8) (1978).

21. See *Sun Dial Corp. v. Ride Out*, 29 N.J. Super. 361, *aff'd*, 16 N.J. 252, 108 A. 2d 442 (1954). Plaintiff brought an action to enjoin defendants, former employees, from using or disclosing a secret process for manufacturing precision dials and panels learned by defendants while employed by the plaintiff.

22. See *Simmons Hardware v. Waibel*, 1 S.D. 488, 47 N.W. 814 (1891).

23. See *Town & Country House & Homes Serv., Inc. v. Evans*, 150 Conn. 314, 189 A.2d 390 (1963).

24. See *Richter v. Westab, Inc.*, 529 F.2d 896 (6th Cir. 1976).

25. See *Arco Indus. Corp. v. Chemcast Corp.*, 633 F.2d 435 (6th Cir. 1980). The court stated that a layout and approach to producing grommets were not protectable where plaintiff did not specifically show what it claimed as protectable was in any way novel. *Id.* at 442.

26. See *Sims v. Mack Truck Corp.*, 488 F. Supp. 592 (E.D. Pa. 1980). The knowledge that a front discharge concrete mixer was a worthwhile product and that it was potentially profitable was not a proper subject of trade secret protection. The general knowledge of a manufacturer including his know how is not protectable as a trade secret. *Id.* at 600.

27. *Motorola v. Fairchild Camera & Instru. Corp.*, 366 F. Supp. 1173, 1184 (D. Ariz. 1973). In a suit by Motorola against a former employee and his new employer, Motorola initially claimed there were 140 alleged trade secret items covering virtually every step in the semiconductor manufacturing process. By the time of trial, Motorola had reduced the number to ten.

28. See *infra* notes 45-46 and accompanying text. This method is an attempt by the employer to prevent the employee from disclosing anything that has potential value. See generally *Motorola v. Fairchild Camera and Instru. Corp.*, 366 F. Supp. 1173 (D. Ariz. 1973).

29. *Ingrassia v. Bailey*, 172 Cal. App. 2d 117, 122, 341 P.2d 370, 375 (1959).

Furthermore, in *Gabriel v. Talley Industries*,³⁰ the court held that the “fruits” of the type of “generalized research” going into research and development contracts in which the product has not yet crystalized were not protectable as trade secrets.³¹ Hence, the section of industry that encompasses research and development may not be afforded trade secret protection.

Common law decisions that refuse to recognize trade secret protection in certain instances are based on several factors. First, it is not the idea alone that is valuable but the capacity to put the idea to productive use.³² It is only by productive use that the idea generates income and benefits individuals. Without the ability to generate income there is no value and therefore no protection.

Second, it is difficult to know if an idea will ever be on the market and offer the owner a competitive advantage. Therefore, the idea is not protectable.³³ The value lies in the right to exploit the idea and without exploitation there can be no advantage over other competitors.³⁴

Finally, some courts refuse trade secret protection to precommercial ideas because they fear that allowing protection will confer a monopoly over research and development in a particular area.³⁵ Such a monopoly will restrict competition and at the same time benefit no one.³⁶

B. Common Law Misappropriation

Under common law principles, misappropriation occurs when the trade secret has been acquired by improper means such as gain-

30. 137 U.S.P.Q. 630 (D. Ariz. 1963). See also *Epstein v. Dennison Manuf. Co.*, 164 U.S.P.Q. 291 (S.D.N.Y. 1969).

31. *Gabriel*, 137 U.S.P.Q. at 633.

32. *Moore v. Ford Motor Corp.*, 28 F.2d 529, 538 (S.D.N.Y. 1928). Where one imparts a mere idea to another and that one acts upon it and profits thereby, he is not liable for the profits derived. In this case, the plaintiff disclosed an idea for a car purchasing plan whereby the buyer would pay weekly installments, defendant was not held liable for misappropriating the idea.

33. *E.I. Du Pont De Nemours & Co. v. United States*, 288 F.2d 904, 909-11 (Ct. Cl. 1961).

34. *Id.* The tax court determined that the transfer of a trade secret was a disposition and taxable as income. To reach this conclusion the court had to analyze trade secret law to determine whether the transfer of a trade secret was equivalent to a sale. Since the owner gives up the right to use the secret and prevent disclosure the transferee receives more than information. The transferee obtains a competitive advantage and a means for exploitation and reward.

35. See cases cited in Kane, *Limitations on The Law of Trade Secrets*, 53 J. PAT. OFF. Soc'y. 152, 168-69 (1971).

36. *Id.* at 169.

ing knowledge through fraud,³⁷ use of surreptitious means,³⁸ or participation in a wrongful conspiracy.³⁹ "A complete catalogue of improper means is not possible."⁴⁰ In general they are means which fall below the generally accepted standards of commercial morality and reasonable conduct."⁴¹

In *E.I. du Pont De Nemours & Co. v. Christopher*⁴² the court failed to concisely define misappropriation. The court in *Christopher* held that the owner of a trade secret is required to take reasonable precautions to maintain secrecy,⁴³ but failed to define "reasonable precautions." Moreover, reverse engineering was not clearly distinguished from improper discovery.⁴⁴ By refusing to develop a clear definition of misappropriation, the holding in *Christopher* failed to promulgate means for deterring development of new and more sophisticated techniques for appropriating trade secrets.

In addition to misappropriation by improper means, misappropriation occurs when there is a breach of a confidential relationship.⁴⁵ The area of employer-employee relations is in the midst of a

37. See *Booth v. Stutz Motor Car Co.*, 56 F.2d 962 (7th Cir. 1932). Defendant's new car model had many features that were found in plaintiff's plans, which had previously been rejected by defendant. The plaintiff sued and the court held that one whose plans, communicated in confidence to a manufacturer and subsequently used by that manufacturer, was entitled to damages.

38. See *E.I. Du Pont De Nemours & Co. v. Christopher*, 431 F.2d 1012, 1015 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024 (1971), *reh'g denied*, 401 U.S. 967 (1971). The court held that the use of aerial photography over the unfinished plant of another constitutes an improper means of obtaining information.

39. See *Harrington v. Nat'l Outdoor Advertising Co.*, 355 Mo. 524, 196 S.W.2d 786 (1946). The court held defendants liable for conspiracy to appropriate a trade secret and wrongful appropriation after defendant entered into a contract with the plaintiff, breached the contract, appropriated the trade secret and then obtained a patent on it.

40. *E.I. du Pont De Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024 (1971), *reh'g denied*, 401 U.S. 967 (1971).

41. *Id.* See also RESTATEMENT OF TORTS § 757 comment f (1939).

42. 431 F.2d 1012 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024 (1971), *reh'g denied*, 401 U.S. 967 (1971).

43. *Id.* The court also stated that discovery of a competitor's process by reverse engineering or independent research was permissible. However, one may not take the process from another without his consent when he is taking precautions to maintain its secrecy. *Id.* at 1015.

44. *Id.* The court stated "[t]o obtain knowledge of a process without spending the time and money to discover it independently is *improper* unless the holder voluntarily discloses it or fails to take reasonable precautions to ensure its secrecy." *Id.*

45. RESTATEMENT OF TORTS §§ 757 (b), (c), & (d) (1939), provide in part:

[o]ne who discloses or uses another's trade secret, without a privilege to do so is liable to the other if . . .

b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that

policy conflict. One line of argument suggests a corporation should be protected against unfair competition stemming from the usurpation of its trade secrets.⁴⁶ On the other hand, a former employee should have the right to be unhampered in the pursuit of an occupation for which he is most suited.⁴⁷ Therefore, the general rule is that an employee may take with him general skills and knowledge acquired during his former employment.⁴⁸ This rule is based upon the premise that "equity has no power to compel a man who changes employers to wipe clean the slate of his memory."⁴⁹

In *Futurecraft v. Clary Corp.*,⁵⁰ the court adopted a standard to deal with the policy conflicts:

Protection should be afforded when, and only when, the information in question has value in the sense that it affords the plaintiff [i.e., ex-employer] a competitive advantage over competitors who do not know of it [i.e., the trade secret], and where the granting of such protection will not unduly hamstring the ex-employee in the practice of his occupation or profession.⁵¹

Although the *Futurecraft* test aids in discerning the scope of misappropriation and improper disclosure, the test fails to set a precise standard for what information can be used by an ex-employee.

This problem is readily apparent in cases such as *Schulenberg v. Signatrol*⁵² and *Digital Development Corp. v. International Memory Systems*.⁵³ The employee knows neither what information constitutes a trade secret nor the parameters of the confidential relationship.

In *Schulenberg*, the defendants memorized plaintiff's plans and drawings. The court held that having a mental picture of trade

the third person's disclosure of it was otherwise a breach of his duty to the other, or

d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

46. *Futurecraft v. Clary Corp.*, 205 Cal. App. 2d 279, 23 Cal. Rptr. 198 (1962).

47. *Id.* at 286, 23 Cal. Rptr. at 209.

48. *Schulenberg v. Signatrol*, 33 Ill. 2d 379, 212 N.E. 2d 865 (1965). The court also attempted to distinguish between general and specific knowledge. However, this approach is only of limited value because the line separating the two is often difficult to determine.

49. *Peerless Patton Co. v. Pictorial Review Co.*, 132 N.Y.S. 37 (1956), *quoted with approval* in *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250, 266 (S.D. Cal. 1958), *aff'd*, 283 F.2d 695 (1960), *cert. denied*, 365 U.S. 869 (1961). The law encourages competition in not only creativeness, but in economy of manufacture and distribution as well.

50. 205 Cal. App. 2d 279, 23 Cal. Rptr. 198 (1962).

51. *Id.* at 288, 23 Cal. Rptr. at 211, quoting von Kalinowski, *Key Employees and Trade Secrets*, 47 VA. L. REV. 583, 599 (1961).

52. 33 Ill. 2d 379, 212 N.E.2d 865 (1965).

53. 185 U.S.P.Q. 136 (1973).

secrets was no different than having a copy on paper.⁵⁴ The defendants obtained the mental pictures while employed by the plaintiff, and carrying away these pictures in this manner was held to be a violation of the confidence reposed in them by their employer. The court found that defendants were not using the skill they had obtained, but were actually copying and carrying away trade secrets.⁵⁵

Schulenberg implies that an employee who has been exposed for a period of time to trade secrets may not later work for a competitor in his field of expertise. Since the employee's mind is full of information, he could not avoid using that information while working on a similar project for a different employer. This case clearly limits an employee's mobility and right to exercise his ability.

Digital Development extends the *Schulenberg* ruling to information which is not necessarily a trade secret.⁵⁶ As long as a confidential relationship exists, disclosure of information is prohibited.⁵⁷ Although this principle has been applied only by this court, it nevertheless may be an obstacle severely limiting the employee.

It is presumed that if a confidential relationship existed, the employee knew or should have known the information disclosed was a trade secret.⁵⁸ However, even if an employee knew a confidential relationship existed, it is often difficult to distinguish information that is a trade secret from information that is not.⁵⁹ Therefore, the common law places an unfair burden on the employee.

54. 33 Ill. 2d 379, 212 N.E.2d 865 (1965).

[I]t should, moreover, make no difference whether the information contained in the blueprints, if qualified as a trade secret . . . , had been pilfered by tracing the blueprints themselves . . . , or has been memorized by someone with a photographic memory, or has been committed to memory by constant exposure to the prints while in the employ of the plaintiff."

Id. at 382, 212 N.E.2d at 869.

55. *Id.*

56. *Digital Development Corp. v. Int'l Memory Sys.*, 185 U.S.P.Q. 136, 141 (1973). Although all given information is not a trade secret, one who receives the information in a confidential relationship is under a duty not to disclose or use the information. *See also* RESTATEMENT OF TORTS § 757 (1939).

57. *Digital Development Corp.*, 185 U.S.P.Q. at 141.

58. MILGRIM, TRADE SECRETS, §§ 3.02(1)(d), 3.05(1)(a) (1978). Where the protection for alleged trade secrets is asserted to be the purpose of a nondisclosure agreement, the majority rule appears to be that the firm does not need to prove the existence of trade secrets although a showing of some element of secrecy or confidentiality seems to be necessary. *Id.* at 3-105.

59. *See supra* notes 18-26 and accompanying text.

C. *Monetary Damages: The Battle Between Lost Profits and Profits of the Misappropriator*

Monetary damages are allowed in trade secret litigation under the theories of breach of contract and breach of confidential relationship.⁶⁰ In *Telex v. IBM*,⁶¹ the court summarized the present state of monetary damages by declaring: "[U]nfortunately the general law as to the proper measure of damages in a trade secrets case is far from uniform."⁶²

One approach is to measure damages by the amount of loss to the plaintiff.⁶³ In *Sperry Rand v. ATO, Inc.*,⁶⁴ the court analyzed the lost profits proximately caused by ATO's misappropriation and held that fixed overhead costs and material overhead costs were recoverable.⁶⁵ Additionally, there was evidence that Sperry Rand could have expected future contracts for spare parts representing twenty five percent of the total amount of the original contract. The court allowed recovery for this amount.⁶⁶

Another approach measures damages by the amount of profits earned by the misappropriator from the use of the appropriated trade secret.⁶⁷ Generally, this method is used when defendant's conduct has been particularly willful or fraudulent, and plaintiff's actual loss is difficult to measure.⁶⁸ When assessing the benefits accrued by the misappropriator of trade secrets, courts apply the "standard of comparison test."⁶⁹ This test compares the costs incurred by the defendant in using the secret to the costs that would have been incurred by the defendant had the trade secret not been

60. RESTATEMENT OF TORTS § 757 comment e (1939).

61. 510 F.2d 894 (10th Cir. 1975) (*per curiam*), *cert. denied*, 423 U.S. 802 (1975).

62. *Id.* at 930.

63. See *Sperry Rand Corp. v. ATO, Inc.*, 447 F.2d 1387, 1392-93 (4th Cir. 1971). Since the objective in allowing damages is to compensate the plaintiff for the difference in his position before and after the misappropriation of his trade secret, his probable loss may be more significant than the misappropriator's gain.

64. 447 F.2d 1387 (4th Cir. 1971).

65. *Id.* at 1393-94.

66. *Id.*

67. *Int'l Indus. v. Warren Petroleum Corp.*, 248 F.2d 696, 699 (3d Cir. 1957). The Third Circuit declared, by analogy to patent infringement, "[t]he appropriate measure of damages, by analogy to patent infringement is not what the plaintiff lost but rather the benefits, profits, or advantage gained by the defendant in use of the trade secret."

Where gaps exist in trade secret law it is not unusual to find authorities using the patent analogy; see also *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518 (5th Cir. 1974).

68. *Int'l Indus. v. Warren Petroleum Corp.*, 248 F.2d at 699. This is significant because at times the misappropriator's gain is more than the plaintiff's loss.

69. *Id.*

misappropriated.⁷⁰ The difference between the costs, which is the benefit accrued to the defendant, is the measure of damages.⁷¹

Neither method for measuring damages recognizes the diminished value of the trade secret resulting from the potential loss of its trade secret status. Moreover, it may be extremely difficult to measure the lost profits of the plaintiff when his product is new and an adequate record of sales and production has not been developed.⁷² It may prove equally difficult to measure the defendant's profits because its revenue is derived from a variety of products on the market and the time required for reverse engineering is in dispute.

The modern trend is to allow whatever form of relief is necessary to compensate the plaintiff for his losses.⁷³ This appears to have developed out of the policy that plaintiff should be made whole, yet there should be no double recovery.⁷⁴ Such a policy increases the court's flexibility in awarding damages and eases the burden on the plaintiff because he can recover using either method.

D. *Injunctions: The Split Between Shellmar and Conmar Products*

Due to the difficulty in translating creative genius, inventive insights and energy of purpose into monetary damages, injunctive relief is the most common remedy. However, courts are split over the duration of the injunction.⁷⁵

In *Shellmar Products v. Allen Qualley Co.*,⁷⁶ the court granted a permanent injunction to punish the defendant for his breach of trust.⁷⁷ Punishment of the misappropriator is manifested by allowing the duration of the injunction to extend beyond the point at which the plaintiff loses the competitive advantage.⁷⁸ The point at which the advantage is lost is when the product enters the market

70. *Id.* at 701-02.

71. *Id.*

72. This situation can occur because the line dividing speculative and nonspeculative damages is not clear. The problem is not restricted to damages in trade secret law but to all areas of law.

73. *Telex v. IBM*, 510 F.2d 894, 931 (10th Cir. 1975) (*per curiam*), *cert. denied*, 423 U.S. 802 (1975). (The common thread in all of the damage cases is the attempt to make the plaintiff whole.)

74. *Id.* See also *Clark v. Bunker*, 453 F.2d 1006 (9th Cir. 1972).

75. An exhaustive history of the *Shellmar* and *Conmar* lines of cases can be found in TURNER, *LAW OF TRADE SECRETS* 427-58 (1962).

76. 87 F.2d 104 (7th Cir. 1936), *cert. denied*, 301 U.S. 695 (1937).

77. *Id.* at 108.

78. *Id.* at 109-10.

and potential competitors obtain a similar product by reverse engineering or other means.

However, in *Conmar Products Corp. v. Universal Slide Fastener*,⁷⁹ the court ruled that no injunction may be issued after the trade secret has been publicly disclosed.⁸⁰ The *Conmar* rule maximizes the freedom of employment choices among skilled workers and promotes the dissemination of knowledge by recognizing the unlimited right to use publicly disclosed ideas.⁸¹ The rule places a minimum burden on the employee at the expense of protecting the employer.

Although the two lines of cases affect the respective parties differently, both rules are severe. The *Conmar* rule is clearly harsh in that once secret information is publicly disclosed it automatically ends all rights to an injunction. The *Conmar* court recognizes the policy of trade secret law that allows protection of secrecy and no more.⁸²

The *Shellmar* rule is equally harsh (although to the defendant instead of the plaintiff) for it focuses on punishment and not on the reality of the economic situation. *Shellmar* allows a permanent injunction because the plaintiff has an action for breach of confidence and the intervening public disclosure of the trade secret does not deprive him of the injunction.⁸³ Furthermore, *Shellmar* is based on the premise that once a misappropriated secret becomes public, the wrongdoer should not be allowed to assert that he is not using the wrongfully appropriated material but rather knowledge picked up in the public domain.⁸⁴

*Winston Research Corp. v. Minnesota Mining & Manufacturing Co.*⁸⁵ represents the modern trend of issuing temporary injunctions against trade secret misappropriators for a period of time approximate to that which it takes to develop a successful product after it is

79. 172 F.2d 150 (2d Cir. 1949).

80. *Id.* at 156.

81. *Id.* The *Conmar* view is supported by a number of policy arguments. First, society has a fundamental interest in allowing the individual to change his employment for whatever reason he wishes and to make full use of his general skills, knowledge and experience for his new employer. Second, free competition and dissemination of ideas are enhanced by allowing such persons reasonable mobility.

82. TURNER, *supra* note 75, at 453.

83. *Id.* at 454.

84. *Id.* at 423.

85. 350 F.2d 134 (9th Cir. 1965). "A permanent injunction would subvert the public's interest in allowing technical employees to make full use of their knowledge and skill in fostering research and development. On the other hand, denial of any injunction at all would leave the faithless employee unpunished" *Id.* at 142. Here, the court formulates a compromise between the different approaches of *Shellmar* and *Conmar*.

disclosed to the public.⁸⁶ Temporary injunctions minimize the burden on employees who are trying to market their skills while at the same time placing the owner of the trade secret in the position he would have been in had the disclosure not occurred.⁸⁷ The *Winston* approach to injunctions has created an appropriate compromise between the extreme positions of earlier opinions. However, different approaches are used⁸⁸ and courts are free to vacillate between them.

III. THE CALIFORNIA UNIFORM TRADE SECRETS ACT

The policy underlying trade secret protection is that the law seeks to encourage invention of new products, processes and technologies and to allow the inventor to exploit his or her invention. Society benefits from the creation of new technologies, as they provide the public with a steady stream of new and better products. New technology increases operating efficiency, promotes growth and rejuvenates the national economy. Without some adequate means for protecting such information the harm to society would be immeasurable.⁸⁹

Considering the rationale behind trade secret protection and the patchwork of conflicting common law doctrines, the Commissioners on Uniform State Laws drafted the Uniform Trade Secrets Act (Uniform Act). The Uniform Act seeks to codify basic principles of common law trade secret protection, resolve issues decided inconsistently by the courts and promote uniformity, simplicity and fairness.⁹⁰ The California Legislature, seeing the need for such an act adopted a modified version of the Uniform Act (California Act).

86. *Id.* See also *Telex v. IBM*, 510 F.2d 894 (10th Cir. 1975) (*per curiam*), *cert. denied*, 423 U.S. 802 (1975).

87. *Id.* See also *K-2 Ski Co. v. Head Ski CO., Inc.*, 506 F.2d 471 (9th Cir. 1974). The court applied the *Winston* formula in a different situation when it enjoined defendants from using the base subassembly trade secret for two years and the surfacing veil secret for one year. "We are satisfied that the appropriate duration for the injunction should be the period of time it would have taken Head, either by reverse engineering or by independent development, to develop it's ski legitimately without use of the K-2 trade secrets." *Id.* at 474.

88. *Shellmar* was the majority doctrine up until the mid 1960's. See generally *Schneider & Halstrom, Trade Secret Protection in Massachusetts*, 56 MASS. L.Q. 239, 258 (1971).

89. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277 (1981). Since companies could forsake research and development and appropriate other company's new developments, there would be no economic incentive to develop new products and processes. Therefore, trade secret protection plays a part in the technological advancement of the country.

90. UNIFORM TRADE SECRETS ACT, 14 U.L.A. 537-40 (commissioners prefatory note, 1980).

A. *Trade Secrets: An Economic Solution
to Definitional Uncertainty*

The California Uniform Trade Secrets Act ("California Act")⁹¹ as defined by the California Legislature defines a trade secret as information, including a formula, pattern, compilation, program, device, method, technique or process that 1) derives independent economic value, actual or potential, from not being known to the public or persons who can obtain economic value from its disclosure or use; and 2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁹²

The California Act broadens the common law definition of trade secret⁹³ and combines the concepts of trade secrets and business information⁹⁴. By utilizing the words "method" and "technique" to include business "know how",⁹⁵ the California Act eliminates the problems of distinguishing "know how" from trade secrets.⁹⁶ Under the California Act, the central issues are the definition of "competitive advantage" and the degree of advantage needed to invoke protection.⁹⁷ Although the California Act provides little guidance for defining competitive advantage or what degree of advantage is mandated for protection, its economic foundation simplifies trade secret law conceptually. The amount of effort and money used to develop the information, the role of such information in the business, and the desirability of this information to competitors which are the components of competitive advantage have become the focal points in ascertaining trade secrets.

Moreover, the California Act eliminates the requirement that information be used continually in the operation of the business.⁹⁸ Consequently, protection is extended to ideas that have not yet

91. CAL. CIV. CODE § 3426 *et seq.* (West Supp. 1986).

92. CAL. CIV. CODE § 3426.1(d) (West Supp. 1986).

93. RESTATEMENT OF TORTS § 757 (1939).

94. UNIFORM TRADE SECRETS ACT, 14 U.L.A. 537 (1980). California adopted the model Act's definition of trade secret which specifically attempted to broaden the common law definition.

95. UNIFORM TRADE SECRETS ACT § 1, 14 U.L.A. at 543.

96. CAL. CIV. CODE § 3426.1(d) (West Supp. 1986). *See also supra* notes 24-26 and accompanying text.

97. CAL. CIV. CODE § 3426.1(d) (West Supp. 1986). No longer will information have to fit into certain categories or be excluded from protection. As long as the information bestows a competitive advantage upon the owner over competitors who do not know of it and remains secret it receives protection.

98. UNIFORM TRADE SECRETS ACT § 1, 14 U.L.A. at 543. The definition of trade secret contains a reasonable departure from the Restatement of Tort's definition which required a trade secret be "continuously used in the business." *See* CAL. CIV. CODE § 3426.1(d) (West Supp. 1986).

reached the market (i.e., products at the developmental stage).⁹⁹ Since trade secret protection does not convey a monopoly over the idea but only protects against usurpation by improper means,¹⁰⁰ the Act will not place an unhealthy burden on competition. For example, results of research and development are not limited to the first company that discovers an idea.¹⁰¹ The information obtained from research gives the owner a competitive advantage because it affords him a headstart over competitors.¹⁰² Such information in the hands of a misappropriator would save him the time and money of starting from scratch. The expenses which normally would have been allocated to develop an idea which could be channeled into other projects thereby compounding the advantage. For the lawful owner of the trade secret, the gain of commercial advantage creates an economic use by allowing him to remain ahead of the competition. The California Act clearly recognizes and remedies the harshness of the common law which does not recognize the advantage of a headstart.¹⁰³

The California Act extends protection to information that is meant to be used only once.¹⁰⁴ Allowing protection of this type of information should not have a major impact on industry. However, recognizing that such information can have economic value is significant because it can be important to a business and its competitors.¹⁰⁵

The California Act further broadens the concept of economic value by including in the definition of trade secret, information that

99. See *supra* note 31 and accompanying text.

100. CAL. CIV. CODE § 3426.1(d) (West Supp. 1986).

101. Kane, *supra* note 35, at 170-71. Kane argues that public policy prevents the extension of protection to the area of research and development. However, since two independently working parties can have trade secret protection in the same item, there is no danger of plaintiff's locking up an entire field of research and development through injunctive relief. See REMER, *supra* note 5, at 20.

102. F.W. Dodge Co. v. Constr. Info. Co., 183 Mass. 62, 66 N.E. 204 (1903). The court held that early possession of information is valuable in itself.

103. CAL. CIV. CODE § 3426.1 (d) (West Supp. 1986).

104. CAL. CIV. CODE § 3426.1(d)(1) (West Supp. 1986). See also UNIFORM TRADE SECRETS ACT § 1, 14 U.L.A. at 542 (1980). The common law use rule is too harsh. For example, an entrepreneur has an idea but lacks the necessary resources to market the idea. If another individual misappropriates the secret he may escape liability because the idea was not continually used in the operation of the business.

105. For example, many corporations set prices, product lines and production levels in relation to what other companies are doing. Thus, a current status report is valuable to a competitor because he would be able to predict the short term future of another's business in a particular area and react accordingly. See P. SOLMAN & T. FREIDMAN, LIFE AND DEATH ON THE CORPORATE BATTLEFIELD 128-37 (1982).

has commercial value from a negative viewpoint.¹⁰⁶ The results of lengthy and expensive research that proves a certain process will not work is an example of negative information. This type of information can be of enormous value to the competitor and consequently, is afforded protection. The California Act's focus on the competitive advantage bestowed upon the owner of such information simplifies the analysis by allowing the economic value of the information determine whether it is a trade secret.¹⁰⁷

The California Act departs from the Uniform Act by dropping the phrase "not being readily ascertainable by proper means" from the definition of trade secret.¹⁰⁸ The Uniform Act states that information is readily ascertainable if it is known within a particular industry or available in trade journals, reference books or published materials.¹⁰⁹ It requires the determination of whether a person having ordinary skill in the art could employ the information to derive the secret.¹¹⁰ If an individual could locate and use such information, protection under the Uniform Act is unavailable.

Under the California Act, a court may focus on the fundamental principles of improper means and breach of confidence regardless of whether a misappropriator could have learned the trade secret through diligent research.¹¹¹ Therefore, under the California Act a person who employs commercially immoral means to obtain a trade secret may be held liable without regard to whether the trade secret was "readily ascertainable." Prior to the California Act, a person who employed reprehensible means to obtain information could not be held liable if the information could be found somewhere in the public domain.¹¹²

B. *Misappropriation: A Simplification of the Common Law*

Under the California Act, misappropriation is divided into the categories of improper means and breach of confidential relationship.¹¹³ The California Act defines improper means to include

106. CAL. CIV. CODE § 3426.1(d)(1) (West Supp. 1986). See UNIFORM TRADE SECRETS ACT § 1, 14 U.L.A. at 543 (1980).

107. UNIFORM TRADE SECRETS ACT § 1, 14 U.L.A. at 543 (1980).

108. CAL. CIV. CODE § 3426.1 (West Supp. 1986); RESTATEMENT OF TORTS § 757 (1939).

109. UNIFORM TRADE SECRETS ACT § 1, 14 U.L.A. at 543 (1980).

110. *Id.*

111. CAL. CIV. CODE § 3426.1(b) (West Supp. 1986).

112. *Gabriel v. Talley Indus.*, 137 U.S.P.Q. 630, 633 (D. Ariz. 1963).

113. CAL. CIV. CODE § 3426.1(b) (West Supp. 1986). Misappropriation means:

1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

"theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means."¹¹⁴ Reverse engineering or independent derivation are expressly distinguished from improper means.¹¹⁵

This formulation is merely a codification of the common law.¹¹⁶ However, the inclusion of "other means"¹¹⁷ of misappropriation gives the courts flexibility in adapting the statute to more ingenious techniques of misappropriation. Aside from reverse engineering and independent derivation, proper means include discovery under license from the owner, discovery by public observation or while on public display, and discovery from published literature.¹¹⁸

The California Act, like the common law, relies on commercial ethics as the general standard for trade secret law¹¹⁹ and improper acts are determined on an *ad hoc* basis by applying the notion of commercial fair play and integrity.¹²⁰

The California Act is broader than the common law concerning breach of confidential relationship.¹²¹ Under common law, the trade secret owners must have knowingly reposed confidence in the person who first acquired the secret.¹²² The California Act imposes liability regardless of how the duty to maintain secrecy arose or whether the trade secret owner knew the circumstances of the

2) Disclosure or use of a trade secret of another without express or implied consent by a person who:

- A) Used improper means to acquire knowledge of the trade secret; or
- B) At the time of disclosure or use knew or had reason to know that his or her knowledge of a trade secret was:
 - i) Derived from or through a person who had utilized improper means to acquire it;
 - ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its uses; or
- C) Before a material change of his or her position, knew or had reason to know it was a trade secret and that knowledge of it had been acquired by accident or mistake.

114. CAL. CIV. CODE § 3426.1(a) (West Supp. 1986).

115. *Id.*

116. See *supra* notes 37-39 and accompanying text.

117. CAL. CIV. CODE § 3426.1(a) (West Supp. 1986).

118. UNIFORM TRADE SECRETS ACT § 1, 14 U.L.A. at 542 (1980).

119. CAL. CIV. CODE § 3426.4 (West Supp. 1986). See also UNIFORM TRADE SECRETS ACT, 14 U.L.A. 537, 545-46 (1980).

120. UNIFORM TRADE SECRETS ACT § 2, 14 U.L.A. at 545-46 (1980).

121. CAL. CIV. CODE § 3426.1(b)(ii) (West Supp. 1986).

122. RESTATEMENT OF TORTS § 757 (1939).

duty.¹²³

As a result, it may be easier for the courts to imply the existence of a confidential relationship under the California Act. The California Act does not specifically address trade secret law in employer-employee relations,¹²⁴ but the broadening of the "breach of confidence" concept runs counter to the policy of encouraging freedom of employment opportunities and mobility. The California Act allows courts to find confidential relationships in more cases and to restrict the information an employee may take with him to his new employment. The broadening of the definitions of trade secret and breach of confidence allows more protection for the employer at the expense of the employee.

The California Act again departs from the common law and its literal conferring of absolute immunity upon all third parties who have paid value in good faith for a trade secret misappropriation by another.¹²⁵ Under the California Act an unauthorized user of a trade secret will be liable from the point he learns the information is a trade secret, provided that the purchaser has not materially changed his position before learning the information is a trade secret.¹²⁶

In addition to redefining misappropriation, the California Act approaches the concept in a different manner. Under common law principles, misappropriation of a trade secret was based on tort law or contract law depending on whether there was a use of improper means or a breach of duty to maintain secrecy.¹²⁷ This distinction led the courts to focus on different theories as the basis for the action. The California Act dispenses with the distinction between contractual and tortious misappropriation by providing a new distinct cause of action.¹²⁸ Therefore, the Act eliminates statute of limitations disputes and damage questions which were prevalent at common law.¹²⁹

Although the California Act's definition of misappropriation solves some of the ambiguities of common law in this area, the defi-

123. CAL. CIV. CODE § 3426.1(b)(ii) (West Supp. 1986).

124. *Id.*

125. CAL. CIV. CODE § 3426.1(b)(2)(B) (West Supp. 1986).

126. CAL. CIV. CODE § 3426.1(b)(2)(C) (West Supp. 1986).

127. *E.I. Du Pont De Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917); *No. Petrochemical v. Tomlinson*, 484 F.2d 1057 (7th Cir. 1973). *See also* RESTATEMENT OF TORTS § 757 (1939).

128. CAL. CIV. CODE § 3426.1(b) (West Supp. 1986).

129. *Id.*

inition remains complex.¹³⁰ There still exists the problem of making the facts in question fit the definition and presenting the case in an understandable form to a jury. The definition of misappropriation is lengthy.¹³¹ A lengthy statute can be difficult to understand, especially when further obfuscated by definitional ambiguities.

C. Damages: Adoption of the Modern Trend

The California Act allows a complainant to recover damages for the actual loss caused by the misappropriation of his trade secrets.¹³² Additionally, the complainant "may recover for the unjust enrichment caused by the misappropriation"¹³³ of his trade secrets. "If neither damages nor unjust enrichment caused by misappropriating are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited."¹³⁴

Although the California Act allows recovery for both actual loss and unjust enrichment of the defendant, it follows present case law by not allowing double recovery.¹³⁵ As with injunctive relief, monetary recovery for misappropriation is appropriate only for that period in which the misappropriator retains an advantage over good faith competitors as a result of the misappropriation.¹³⁶

By awarding a reasonable royalty when actual loss or unjust enrichment are too speculative, the California Act significantly de-

130. UNIFORM TRADE SECRETS ACT, 14 U.L.A. 537 (1980). The North Carolina Committee on the Uniform Trade Secrets Act took a different route by making simplicity the prime requisite of the Act. The definition of misappropriation was trimmed to include the acquisition, disclosure or use of a trade secret of another without expressed or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering or was obtained from another with the right to disclose the trade secret. The North Carolina Act also adds a section that sets out the prima facie case of misappropriation and the appropriate defenses. See N.C. GEN. STAT. § 66-152(1) (1981). For further discussion see Root & Blynn, *Abandonment of Common Law Principles: The North Carolina Trade Secrets Protection Act*, 18 WAKE FOREST L. REV. 823-55 (1982).

131. See *supra* note 113 and accompanying text.

132. CAL. CIV. CODE § 3426.3(a) (West Supp. 1986).

133. *Id.* The Act states that a complainant may also recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.

134. CAL. CIV. CODE § 3426.3(b) (West Supp. 1986).

135. CAL. CIV. CODE § 3426.3(a) (West Supp. 1986). See also UNIFORM TRADE SECRETS ACT § 3, 14 U.L.A. at 547 (1980). See also *Universal Computing v. Lykes-Youngstown Corp.*, 504 F.2d 518, *reh'g denied*, 505 F.2d 1304 (5th Cir. 1974); *Clark v. Bunker*, 453 F.2d 1006 (9th Cir. 1972); *Sperry Rand Corp. v. ATO Inc.*, 447 F.2d 1387, *cert. denied*, 405 U.S. 1017 *reh'g denied*, 459 F.2d 19 (4th Cir. 1971).

136. CAL. CIV. CODE § 3426.3(a) (West Supp. 1986). See also UNIFORM TRADE SECRETS ACT § 3, 14 U.L.A. at 547 (1980).

parts from both common law and the Uniform Act.¹³⁷ This formulation offers flexibility in the application of remedies. Instead of denying relief when actual loss or unjust enrichment may be too speculative, a reasonable royalty serves as a compromise between finding clear loss or denying relief. This change not only fills a gap in the present system but offers a more predictable alternative.

The California Act also differs from common law by allowing punitive damages for willful and malicious misappropriation.¹³⁸ The California Act, however, places a ceiling on the amount, limiting it to twice the award.¹³⁹ Additionally, it places the determination of the award in the hands of the court and not with the jury.¹⁴⁰ Determining whether a punitive award should be made by the court or jury requires consideration of two risks: (1) the jury may ravage a deep pocket defendant unreasonably; and (2) a court may release a defendant who causes great loss to the plaintiff from liability because either there has been only slight damage or unjust enrichment cannot be proved. Although this is a policy problem on which reasonable minds may differ, the California Act favors the defendant on this issue.¹⁴¹

The California Act clearly sets the parameters on the remedies issue. In the past, cases have differed widely in the application of damage formulae.¹⁴² By codifying the best reasoned cases,¹⁴³ the California Act overcomes many of the inconsistencies existing at common law.

D. *Injunctions: Adoption of the Modern Trend*

The California Act adopts the modern trend of authority¹⁴⁴ limiting the duration of injunctive relief to the extent of the temporary advantage over good faith competitors gained by a misappropriator.¹⁴⁵ The period is limited to the time it would have taken the misappropriator to discover the trade secret either by in-

137. CAL. CIV. CODE § 3426.3(b) (West Supp. 1986). *See also* UNIFORM TRADE SECRETS ACT, 14 U.L.A. 537 (1980).

138. CAL. CIV. CODE § 3426.3(c) (West Supp. 1986).

139. *Id.* However, the concept of willful and malicious behavior has been elusive. The failure to give the words any meaning fosters the uncertainty the Act tries to dispel.

140. CAL. CIV. CODE § 3426.3(c) (West Supp. 1986).

141. *Id.*

142. *See supra* notes 60-62 and accompanying text.

143. *See supra* note 73 and accompanying text.

144. *Winston Research Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134 (9th Cir. 1965); *see also K-2 Ski Co. v. Head Ski Co., Inc.*, 506 F.2d 471 (9th Cir. 1974).

145. CAL. CIV. CODE § 3426.2 (West Supp. 1986). *See also supra* note 85 and accompanying text.

dependent development or reverse engineering of the discoverer's product.¹⁴⁶

The California Act attempts to solve the conflict in situations where the misappropriator will damage a trade secret owner, but an injunction against future use is unreasonable under the particular circumstances of the case.¹⁴⁷ The California Act provides that future use of a trade secret is conditional upon payment of a reasonable royalty to compensate the owner for his loss and as a result the misappropriator is prevented from being unjustly enriched.¹⁴⁸

Like the Uniform Act, the California Act does not contemplate permanent injunctions.¹⁴⁹ However, the California Act provides for relief beyond the scope of that which may have been available at common law.¹⁵⁰ The California Act states that affirmative acts may be compelled by court order.¹⁵¹ Substantial power and discretion therefore may be placed in the court. In addition to compelling the return of the physical embodiments of the trade secret, the court may order the misappropriator to take definitive steps to prevent further disclosure.¹⁵² These can include extraordinary measures such as special directives to employees and agents or a substantial revision of operations incorporating the misappropriated trade secret.¹⁵³

The California Act also allows courts to enjoin threatened misappropriation.¹⁵⁴ However, proving a defendant has used or will use the wrongfully acquired information can be extremely difficult

146. CAL. CIV. CODE § 3426.2 (West Supp. 1986).

147. CAL. CIV. CODE § 3426.2(b) (West Supp. 1986). In *Republic Aviation v. Schenk*, 152 U.S.P.Q. 830 (N.Y. 1967), the court denied injunctive relief because enjoining the misappropriator from supplying the U.S. military with an aircraft weapons control system may have endangered military personnel in Viet Nam.

148. CAL. CIV. CODE § 3426.2(b) (West Supp. 1986).

149. CAL. CIV. CODE § 3426.2(a) (West Supp. 1986). See also UNIFORM TRADE SECRETS ACT § 2, 14 U.L.A. at 544 (1980). The Act provides that "an injunction should last for as long as is necessary but no longer than is necessary to eliminate the commercial advantage or lead time with respect to good faith competitors that a person has obtained through misappropriation. Subject to any additional period necessary to negate lead time, an injunction accordingly should terminate when a former trade secret becomes either generally knowable to them because of the lawful availability of products that can be reversed engineered to reveal trade secrets."

150. CAL. CIV. CODE § 3426.2(c) (West Supp. 1986). See also RESTATEMENT OF TORTS § 757 (1939), which indicates that a court can compel the surrender of physical items embodying a trade secret.

151. CAL. CIV. CODE § 3426.2(c) (West Supp. 1986).

152. *Id.* See also UNIFORM TRADE SECRETS ACT § 3, 14 U.L.A. at 546 (1980).

153. CAL. CIV. CODE § 3426.2(c) (West Supp. 1986).

154. CAL. CIV. CODE § 3426.2(a) (West Supp. 1986).

because direct evidence is rare.¹⁵⁵ Consequently, as long as the plaintiff can show that misappropriation will cause substantial injury, suspicion may be enough to warrant the issuance of an injunction.

A low standard of proof may further open the door to abuse of process. Trade secret cases have more than doubled in the last five years.¹⁵⁶ Most cases hinge on the departure of ambitious executives or engineers who start new businesses.¹⁵⁷ The trade secret lawsuit has become an effective weapon for "killing" a new company.¹⁵⁸ The costs can be staggering and the attendant publicity and other restrictive effects can scare away investors, customers and employees.¹⁵⁹

To combat against predatory trade secret litigation, the California Act provides that if a claim of misappropriation is made in bad faith, the court may award reasonable attorneys' fees to the prevailing party.¹⁶⁰ Considering the complexity of trade secret litigation attorneys' fees can be considerable.¹⁶¹ Under common law principles, courts have been reluctant to award attorneys' fees in absence of specific statutory authority.¹⁶²

The California Act offers no guidance on what constitutes bad faith. Therefore, courts must rely on common law. Under common law, unnecessary, groundless, vexatious and oppressive petitions and motions have been considered bad faith and attorneys' fees

155. *Greenberg v. Croydon Plastics Co.*, 378 F. Supp 806, 814 (E.D. Pa. 1974).

In most cases plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince him that it is more probable than not that what plaintiffs allege happened did in fact take place. Against this often delicate construct of circumstantial evidence there must be balanced defendants and defendants' witnesses who directly deny everything *Id.* at 814.

156. Dubro, *Keeping Trade Secrets in Silicon Valley*, CALIF. LAW., Sept. 1984, 43.

157. *Id.*

158. *Id.*

159. *Id.* See also *SAR Indus., Inc. & Sarmax Corp. v. Monogram Indus.*, 1976 Trade Cas. (C.C.H.) at 68,520 (C.D. Cal. 1976). "Through unfair trade secret litigation, the former employer will attempt to exhaust the new competitor, suggest to customers and suppliers that the new technology may fail and warn other employees about striking out on their own." *Id.* at 68,522.

160. CAL. CIV. CODE § 3426.4 (West Supp. 1986). The Act provides, "if a claim for misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith . . . the court may award reasonable attorney's fees to the prevailing party."

161. *Carter Prod., Inc. v. Colgate Palmolive Co.*, 214 F. Supp. 385, 414-15 (D. Md. 1963). In this case the court awarded \$525,000 in attorneys' fees.

162. See *Pachmayr Gun Works, Inc. v. Olin Mathison Chem. Corp.*, 502 F.2d 802, 809-13 (9th Cir. 1974). In this case the court went into an exhaustive discussion of the California rule and its narrow limitation of attorneys' fees to statutorily defined instances.

awarded.¹⁶³ In actions for unfair competition such as misappropriation of trade secrets, fees are assessed when a wrongdoer's conduct is unconscionable, fraudulent, willful or exceptional.¹⁶⁴ By not giving substance to the concept of "bad faith," the California Act may only be shifting the problem. In the past courts were reluctant to award attorneys' fees without statutory authority;¹⁶⁵ under the Act they may be reluctant to find "bad faith."

IV. THE CALIFORNIA ACT'S EFFECT ON LITIGATION

In addition to modifying the concepts of trade secret and misappropriation and formulating a coherent theory of remedies, the California Act will have a profound impact on the way trade secret litigation is conducted. Before discovery commences, the complainant must identify the trade secret with reasonable clarity.¹⁶⁶ By requiring clear identification at the early stage of litigation, abuses of discovery may be curbed since proper identification will eliminate disputes over what trade secrets are at issue.

Another important provision in the California Act requires the court to preserve the secrecy of an alleged trade secret.¹⁶⁷ Although the court must safeguard confidentiality, it also must ensure that a respondent is provided sufficient information for an adequate defense and the trier of fact is provided enough information to resolve the dispute.¹⁶⁸

In addition to the illustrative techniques specified in the California Act¹⁶⁹ courts have protected secrecy by restricting disclosures to counsel¹⁷⁰ and assistants or by appointing a special master to hear the information and report his conclusions to the court.¹⁷¹ By using these techniques the California Act ensures, by the force of statute, that a plaintiff's trade secret will retain its secrecy. There-

163. *Local 149 Int'l Union v. American Brake Shoe Co.*, 298 F.2d 212 (4th Cir. 1962). This case provides an extensive discussion of cases ruling on this issue.

164. *Id.* at 215.

165. *Sperry Rand Corp. v. ATO Inc.*, 447 F.2d 1387 (4th Cir. 1971). The court denied \$225,000 for attorneys' fees on the ground that Virginia law did not authorize the award.

166. CAL. CIV. CODE § 2036.2 (West Supp. 1986).

167. CAL. CIV. CODE § 3426.3 (West Supp. 1986). In an action under this title, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in camera hearings, sealing the records of the action and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

168. *Id.* See also UNIFORM TRADE SECRET ACT § 5, 14 U.L.A. at 548-49 (1980).

169. See *supra* note 167 and accompanying text.

170. UNIFORM TRADE SECRETS ACT § 5, 14 U.L.A. 537, 548-49 (1980).

171. *Id.*

fore, an injured plaintiff may be more inclined to seek redress through the court system.

The California Act imposes a three year statute of limitations for actions involving the misappropriation of trade secrets,¹⁷² thus eliminating disputes over whether the statute of limitations for tort action or contract action should be used.¹⁷³

In addition, the California Act eliminates the split of authority on the question of when the statute begins to run. One line of cases has held that each day's use of another's trade secret by a misappropriator constitutes a new and discrete wrong.¹⁷⁴ This approach extended an injured party's right to recover for misappropriation. A second line of authority used the date of the first use of the trade secret as the time of misappropriation¹⁷⁵ and the time period for recovery was considerably shortened.

The California Act rejects the "continuing wrong" approach to the statute of limitations but delays the commencement of the limitation period until an aggrieved person discovers or reasonably should have discovered the existence of misappropriation.¹⁷⁶ It thus clarifies the date at which the statute of limitations begins to run while recognizing the inequity resulting to trade secret owners as a result of the mechanical operation of the first use theory.

V. CONCLUSION

Trade secret law is critically important to protect commercially valuable ideas that bestow a competitive advantage upon their owners. It deserves coherent, systematic, complete and uniform treatment as a body of law. The California Act significantly contributes toward such a goal. It clarifies and broadens the definitions of misappropriation and trade secret. It codifies the results of the better reasoned cases concerning remedies and offers a coherent theory in this area. Finally, the California Act will have a significant effect on litigation by uniformly providing a single statute of limita-

172. CAL. CIV. CODE § 3426.6 (West Supp. 1986). "An action for misappropriation must be brought three years after the misappropriation is discovered or by the use of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim."

173. *Id.*

174. *Underwater Storage, Inc. v. U.S. Rubber Co.*, 371 F.2d 450 (D.C. Cir. 1966), *cert. denied*, 386 U.S. 911 (1967).

175. *Davies v. Krasna*, 14 Cal. 3d 502, 121 Cal. Rptr. 705, 535 P.2d 1161 (1975); *Matter of McLion*, 739 F.2d 1395 (9th Cir. 1984); *Whittaker Corp. v. Execuair Corp.*, 736 F.2d 1341 (9th Cir. 1984); *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288 (9th Cir. 1969).

176. CAL. CIV. CODE § 3426.6 (West Supp. 1986).

tions, preserving the secrecy of the trade secrets, and requiring early and specific identification of the secrets at issue.

However, the California Act is not without its drawbacks. The definition of misappropriation is still cumbersome. Furthermore, an injunction for threatened misappropriation may open a Pandora's box of evils.

Overall, the California Act is an improvement upon the common law approach where, under economic pressures, industry continues to rely on trade secret protection despite the doubtful and confused status of both common law and statutory remedies.